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S E C R E T

15 April 1985

MEMORANDUM FOR: Comptroller

FROM: Allen R. Elkins
Director of Finance

SUBJECT: Question from HPSCI dated 5 April 1985

REFERENCE: Questions transmitted to DD/Finance on 8 April 1985 from
[redacted] C/AG O/Comptroller

Attached are the Office of Finance response to reference. If additional
information is desired, please contact [redacted]

/s/ Allen R. Elkins
Allen R. Elkins

Copy to:
Deputy Director for Administration
Director of Personnel

S E C R E T

S E C R E T

A. DESCRIBE HOW CIARDS IS FUNDED.

The system is presently being financed by the following contributions:

- (1) Employee contributions of 7% of salary.
- (2) Employer matching contributions by the CIA of 7% of salary.
- (3) Refund from employing agencies for offset of re-employed annuitants.
- (4) Contributions, deductions and accrued interest for creditable service under other Federal civilian retirement systems.
- (5) Interest earned by investment of the Fund in Treasury securities.
- (6) Payment by appropriation of:
 - Interest on the unfunded accrued liability.
 - Residual normal cost not met by items (1) & (2).
 - Annuity payments attributable to military service.
 - Amortization over 30 years of the unfunded liability created by general salary increases, liberalization of benefits, and extension of coverage to new employee groups.

B. WHAT IS THE OVERALL "ENTRY-AGE NORMAL COST" AS A PERCENTAGE OF PAY FOR THE CIARDS?

The various normal costs are based on certain assumptions - static (0, 0, 6); static (0, 5, 6); and dynamic (5, 5, 6). The first number is the assumed percentage rate of wage increase exclusive of longevity increases and promotions, the second number is the assumed annual percentage rate of annuity increase, and the third number is the assumed interest rate. Thus the (0, 0, 6) assumption assumes no salary increases except for longevity and promotions, no annuity increase and a six percent interest rate on Government bonds.

The overall rate for the (0, 0, 6) assumption is 17.5646% and the overall rate for the (0, 5, 6) assumption is 32.2697% based on data as of 31 July 1984 by the Department of Treasury Actuaries. These percentage rates are somewhat higher than the data provided in the 31 December 1978 study by the Actuaries. There was not a dynamic assumption (5, 5, 6) made by the Actuaries on 31 July 1984; however, it is anticipated that a dynamic assumption completed as of that date would be significantly larger than the static assumption.

C. WHAT IS THE ENTRY-AGE NORMAL COST TO THE GOVERNMENT AS A PERCENTAGE OF PAY FOR THE CIARDS?

The cost to the Government for the (0, 0, 6) assumption is 10.5646%, for the (0, 5, 6) assumption is 25.26970%.

S E C R E T

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D. AS OF 30 SEPTEMBER 1984, WHAT WERE THE FUNDED AND UNFUNDED LIABILITIES OF THE CIARDS, AND OF WHAT SIGNIFICANCE IS THE UNFUNDED LIABILITY?

The liability of the system as of 30 September 1984 based on the Treasury's actuarial projection of 31 July 1984 is:

	<u>Dollars In Millions</u>
Unfunded Liabilities	
Present value of amortized payments	\$ 159.4
Present Value of Military payments	206.6
Statutory Unfunded Liability	1,072.7
TOTAL Unfunded	<u>\$1,438.7</u>
Funded Liabilities	
Cash	13.5
US Securities	275.0
TOTAL Funded	<u>\$288.5</u>

The unfunded liability does not recognize the true cost of the system since the assumption is based on the static (0, 0, 6) model. This difficulty was recognized in the 31 December 1978 "Actuarial Valuations" which stated,

"Within 30 years under present assumptions the annual appropriation on the 0-0-6 basis will exceed the annual appropriations that would be required under a 0-5-6 funding basis. Of more immediate present concern; however, is that under the cash flow projections, the present fund balance will steadily decline to a level requiring some current year appropriations to satisfy current year benefits by the year 1995."

While the updated actuarial study has not been completed by the Department of Treasury the comments on the unfunded liability are expected to be similar.

E. WHAT IS THE BEST ESTIMATE OF THE COST TO THE GOVERNMENT OF FUNDING THE CIARDS IN EACH OF THE NEXT FIVE FISCAL YEARS?

The best estimate of the cost to the Government of funding the CIARDS in each of the next five fiscal years is:

	<u>Dollars in Millions</u>				
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
	101.4	109.6	118.2	126.9	137.0

S E C R E T